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BTN Research

November 29, 2018 | www.btnresearch.com

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GameStop (GME) Update

GameStop does not announce earnings and have the conference call until after we publish today. However, it did announce that it sold the Spring Mobile unit for $700 million. With the sale of the Cricket stores in January, this should end the company's diversification attempts into selling phones.

We noted in our report that the history of this division has been very poor after spending considerable money on it. The ROI was historically between 3%-8%. GameStop also took a $329 million impairment in fiscal 2017 along with a $33 million write-down in goodwill. After those write-downs, we would be leery of the company announcing anything other than a loss on the sale of Spring Mobile. They built this division largely with acquisitions. In August 2016, they paid $425.5 million for 436 stores or $976,000 per unit. In May of 2016, they paid $47 million for 71 stores or $662,000 per unit.

In January 2018, GameStop sold 63 Cricket stores for $3.8 million or $60,000 per unit. And now, the remaining 1,289 stores were sold for $700 million or $543,000 per unit. Figures like that would indicate to us that they lost money on this deal. The sale also comes AFTER they negotiated better terms for higher commissions and more compensation in higher-cost markets with AT&T. That may have helped boost the price of the sale.

On the positive side of this, bringing in $700 million will more than cover the $350 million in bonds due in October 2019. Also, the company still has an outstanding tax dispute in France for €80 million. It reserved just under $30 million for it recently, but this cash would now fully fund that. There would remain one other bond issue outstanding for $475 million due in 2021.

Also, on the positive side, GameStop gets rid of a non-core unit that was posting weak results. EBITDA with impairments added back was running about $75-$80 million for the technology brands unit with is largely Spring Mobile. It was spending about $20-$30 million on capital investments in this unit so net cash flow was about $50 million. Paying off the

5.5% 2019 bonds will save about $19 million. Can they earn over 9% on the remaining $350 million? If so, it would be a wash except the company would owe less money and have a weak division gone. The current dividend is $1.52 per share, which is about $1.92 pretax. Buying back 10 million shares at $15 would save $19.2 million in cash outflow and generate a return of about 13%. The company would still have $150 million in cash.

We're not advocating they buy that much stock back given the nature of other business trends at the company. However, we think it is possible to envision ways to have GameStop's balance sheet and cash flow situation improve as a result of selling the Spring Mobile unit.

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